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SUBJECT: RHINELAND-PFALZ OFFICIALS CALL FOR DRASTIC
ECONOMIC REFORMS

1. (SBU) Summary: In meetings with the Consul General on March 11 and 12, Rhineland-Pfalz Minister for Economics, Transportation, Agriculture and Viniculture, Hans-Artur Bauckhage (FDP) and State Secretary Karl-Heinz Klaer (SPD), Representative of the State in Berlin and Brussels, called for comprehensive and speedy economic reform in Germany. Both politicians agreed Germany needs reform but doubted whether Chancellor Schroeder had the political will to do battle with the unions and the left wing of the SPD. Bauckhage indicated that the support for the national coalition could erode even further if unemployment remains close to five million by the end of the year. Klaer and Bauckhage regretted the ongoing tensions in German-American relations. End Summary.

2. (SBU) Rhineland-Pfalz Minister for Economics, Transportation, Agriculture and Viniculture, Hans-Artur Bauckhage (FDP) and State Secretary Karl-Heinz Klaer (SPD), Representative of the State in Berlin and Brussels, met with the Consul General on March 11 and 12. Klaer stated that the CDU majority in the Bundesrat creates a difficult environment for the SPD-Green Party government. If Schroeder had a cabinet as good as Roosevelt's, he could push forward regardless, but he does not. Negotiating compromises on legislation costs valuable time. According to Klaer, Schroeder should copy Clinton's strategy and co-opt some of the opposition's ideas. He noted that for Schroeder this would mean loss of the support of the SPD caucus, however.

3. (SBU) Much will depend on Schroeder's major policy speech on Friday, March 14. Expectations were raised too high, Klaer said, making them too hard to meet. Recalling his experience as speechwriter to former chancellor Willy Brandt, the proven strategy is to lower expectations beforehand, giving the policy speech more room to succeed. He also emphasized that Rhineland-Pfalz Minister President Kurt Beck (SPD) made clear to Schroeder that the current economic situation is truly dire. Klaer said that Schroeder must announce drastic reform measures, even if it means a further loss of electoral support. Schroeder's problem will be with the SPD Bundestag caucus, however, not with the SPD party, which he described as "virtually dead." Klaer was also very critical of the 2000 tax reform. A reform of the federal-state revenue sharing system was needed along with it: tax reforms alone are useless.

4. (SBU) Klaer regretted the tensions in German-American relations and stated that Minister-President Beck would personally insist on ensuring that the U.S. military will be able to perform its missions from Germany during a possible Iraq war. Security measures to protect American installations will be further enhanced in case of a military conflict.

5. (SBU) Klaer, who is also the state's representative in Brussels, is satisfied with the progress of the European Convention. A result can be presented at the end of 2003, which then has to be passed by the EU member states. The EU expansion candidates are also represented in the convention. He reported that in the beginning Great Britain tried to dominate the Convention but failed. The Convention is following the 200-year-old American constitutional example.

6. (SBU) Economics Minister Bauckhage expressed similar concerns about the state of the German economy. Germany's social system and its bureaucratic apparatus need a complete overhaul. Bauckhage stated that Minister-President Beck also considers drastic reforms essential and unavoidable. Unlike Klaer, however, he could not assess the degree of Beck's influence on the national SPD leadership. Bauckhage felt Germany was in danger of sliding into the same situation as Japan. "The door to deflation has been opened," he said. People have lost faith in the government, they are saving their money and consumption is collapsing. He also criticized the planned investment program of the SPD-Green government as ineffective: he doubts that Schroeder has the political will to push through reform. He predicted that the national government might sail into heavy weather if unemployment is still close to five million by the end of 2003, but admitted that the problems date back to the late years of Chancellor Helmut Kohl's administration. The FDP

should have left the national coalition when the CDU failed to implement tax reform. Bauckhage also called for a simplification of the German tax system. "Everyone in the Chancellery should take Economics 101," he said.

17. (SBU) Bauckhage also emphasized the need for an effective, rational immigration law. Immigration is an emotional issue and should be handled with care by all parties. There are certain taboos in Germany, which should not be touched by politicians, referring to Moellemann's controversial campaign brochure, viewed as anti-Semitic, which Bauckhage felt cost the FDP and the CDU the election victory last fall.

18. (SBU) Bauckhage also criticized Schroeder's strategy of playing the Iraq card during national and state election campaigns. Schroeder's foreign policy has already created problems in diplomatic circles and might lead Germany into international isolation. He said the strained bilateral relationship will have a negative impact on U.S. military installations in Ramstein and Spangdahlen, which are of considerable economic importance to the state. Bauckhage worried that troops now deployed in Iraq may not return to Germany.

19. (SBU) Comment: The SPD-FDP coalition in Rheinland-Pfalz is unique in Germany. Both coalition partners agree that drastic reforms are needed at the national level immediately. There is palpable concern, however, in both the Rheinland-Pfalz SPD and FDP, that resistance to change in unions and the SPD Bundestag caucus is too great. Schroeder might fail in his efforts to move the country forward. The Rheinland-Pfalz SPD hopes that Minister-President Beck, who supports reform, can use his influence at the national level to help move things in the right direction. There is also real concern in the state about tensions in the German-American relationship. With two large U.S. military bases in economically weak regions, thousands of jobs could be lost if bases downsize or close. In addition to the already desolate economic situation, leading politicians in the state are afraid that U.S. troops might leave Rheinland-Pfalz. End Comment.

110. (U) This message was coordinated with Embassy Berlin.

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